EXHIBIT 1

INTRODUCTION

Respondent Mike Matsuda was an unsuccessful candidate for the 68th Assembly District in the November 3, 1998 general election. Respondent Mike Matsuda for Assembly (the "Committee") was the controlled committee of Respondent Mike Matsuda.

This case arose from an audit of Respondent Committee by the Franchise Tax Board ("FTB") for the period January 1, 1998 through December 31, 1998. During the period covered by the audit, Respondent Committee received contributions totaling \$137,362, and made expenditures totaling \$121,492. The FTB found that Respondents failed to maintain detailed records and accounts necessary to prepare campaign statements, as required by the Political Reform Act (the "Act").

For the purposes of this Stipulation, Respondents' violation of the Act is stated as follows:

COUNT 1:

Respondents Mike Matsuda and Mike Matsuda for Assembly failed to maintain the detailed accounts, records, bills, receipts, and contributor information necessary to prepare a semi-annual campaign statement, filed on February 1, 1999, for the reporting period October 18, 1998 through December 31, 1998, in violation of section 84104.

SUMMARY OF THE LAW

An express purpose of the Act, as set forth in section 81002, subdivision (a), is to ensure that receipts and expenditures in election campaigns are fully and truthfully disclosed to the public, so that voters may be better informed, and improper practices may be inhibited. To that end, the Act sets forth a comprehensive campaign reporting system designed to accomplish these purposes of disclosure.

Duty of Candidates and Committees to File Campaign Statements

Section 84200, subdivision (a) requires candidates and their controlled committees to file semi-annual campaign statements each year no later than July 31 for the period ending June 30, and no later than January 31 for the period ending December 31 of the prior year.²

¹ The Political Reform Act is contained in Government Code sections 81000 through 91014. All statutory references are to the Government Code, unless otherwise indicated. The regulations of the Fair Political Practices Commission are contained in sections 18109 through 18997 of title 2 of the California Code of Regulations. All regulatory references are to title 2, division 6 of the California Code of Regulations, unless otherwise indicated.

² Regulation 18116 provides that when a filing deadline falls on a Saturday, Sunday, or official state holiday, the filing deadline is extended to the next business day.

Duty to Maintain and Retain Campaign Records

To ensure accurate campaign reporting, section 84104 imposes a mandatory duty on each candidate, treasurer, and elected officer to maintain detailed accounts, records, bills and receipts that are necessary to prepare campaign statements and to comply with the campaign reporting provisions of the Act. This requirement, as interpreted by regulation 18401, includes a duty to maintain detailed information and original source documentation for all contributions and expenditures.

For non-monetary contributions, regulation 18401, subdivision (a) provides that the records maintained must reflect the fair market value, along with a description of the goods or services received, and that the original source documentation must include contributor cards, letters of transmittal, and notices received from contributors. If the contributor has not provided a notice indicating the value of a non-monetary contribution, the original source documentation must include a memorandum or other record that describes the method used to determine the value of the goods or services contributed.

Regulation 18401, subdivision (b)(2), requires the candidate and the committee treasurer to retain the above described campaign records for four years following the date that the campaign statement to which they relate is filed.

SUMMARY OF THE FACTS

Respondent Mike Matsuda was an unsuccessful candidate for the 68th Assembly District in the November 3, 1998 general election. Respondent Mike Matsuda for Assembly was the controlled committee of Respondent Mike Matsuda.. Respondent Committee was formed on January 29, 1998, and qualified as a committee under the Act on February 9, 1998.

The FTB initiated an audit of Respondent Committee's finances for the period January 1, 1998 through December 31, 1998. During the audit period, Respondents received contributions totaling \$137,362, and made expenditures totaling \$121,492. The audit revealed that Respondents failed to maintain invoices or receipts documenting \$88,664 in expenditures during the period covered by the audit. Respondents did not maintain any occupation or employer information for contributors of \$100 or more throughout the audit period.

Additionally, Respondents received \$14,091 in non-monetary contributions from January 1, 1998 through December 31, 1998, and failed to maintain memoranda or other records describing the method used to determine the value of the goods or services contributed.

When queried by the FTB auditor about the failure to maintain and retain campaign records, Respondent Matsuda responded that members of Respondent Committee were unaware of the records retention requirements of the Act, and took the campaign records home and destroyed them sometime after the general election. During the campaign, Respondent Committee had two different treasurers during the period covered by the audit. Neither treasurer was involved in the conduct giving rise to violations. As such, neither treasurer has been named as a respondent.

COUNT 1

Failure to Maintain Detailed Records and Accounts for the Semi-annual Campaign Statement, for the Reporting Period October 18, 1998 through December 31, 1998.

Respondents were required by section 84104 and regulation 18401, subdivision (a) to maintain detailed information and original source documentation for each contribution of \$25 or more, and for each expenditure of \$25 or more. Respondents filed a semi-annual campaign statement on February 1, 1999, in which they reported receiving a total of \$42,437.63 in contributions during the reporting period October 18, 1998 through December 31, 1998. Respondents did not maintain detailed information regarding contributors, including original source documentation for the contributions that they received. During the same reporting period, Respondents reported making a total of \$60,572.41 in expenditures. Respondents did not maintain the detailed information regarding payees, including original source documentation for the expenditures that they made.

For non-monetary contributions, regulation 18401, subdivision (a) required Respondents to maintain records that reflected the fair market value, along with a description of the goods or services received. Respondents did not maintain such supporting valuation records for \$730.63 in non-monetary contributions received during the October 18, 1998 through December 31, 1998 reporting period.

By failing to maintain detailed records and accounts necessary for the preparation of the semi-annual campaign statement, filed on February 1, 1999, covering the reporting period October 18, 1998 through December 31, 1998, Respondents violated section 84104.

CONCLUSION

This matter involves one count of violating section 84104, as interpreted in regulation 18401, subdivision (a), carrying a maximum administrative penalty of Two Thousand Dollars (\$2,000).

During the audit period, Respondents made \$121,492 in expenditures, but failed to maintain invoices or receipts for \$88,664 of those expenditures. Thus, the FTB was unable to adequately verify the information reported for 73 percent of Respondent Committee's expenditures. The historical penalty range for record-keeping violations is \$750 to \$2,000, per violation. As this violation had a substantial impact on the ability of the auditor to verify expenditures, and was apparently deliberate, though not in bad faith, a penalty at the upper end of the historical penalty range is appropriate.

The facts of this case, as well as the aforementioned factors, justify imposition of the agreed upon administrative penalty of Two Thousand Dollars (\$2,000).